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RUEHGV/USMISSION GENEVA 0839
RUEHVEN/USMISSION USOSCE 2831
RUCNDT/USMISSION USUN NEW YORK 2216
RUEHNO/USMISSION USNATO BRUSSELS BE
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C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000195

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E.O. 12958: DECL: 02/27/2018

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SUBJECT: KYRGYZ MINISTER OUTLINES ENERGY SECTOR PLANS

REF: DUSHANBE 168

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Classified By: Amb. Marie L. Yovanovitch, Reasons 1.4 (b) and (d).

¶1. (C) Summary: Kyrgyz Minister Energy Balkibekov told the Ambassador and USAID Country Representative February 12 that the government expects to adopt by this summer a new tariff policy that would provide for annual increases to electricity, heating, and hot water rates. He said the government was working to change the social safety net system to protect the neediest consumers. To improve the financial conditions in the energy sector, Balkibekov said that the government would proceed first with privatizing distribution companies, and then privatize generation and transmission assets at a later date. Balkibekov said there was sufficient water in the Toktogul Reservoir to meet generation needs this year, even if there is low precipitation. Balkibekov said it was pre-mature to try to develop a regional market for electricity, but he welcomed USAID's upcoming assistance on CASA-1000 and investment needs, which was narrower in scope and Kyrgyzstan-specific. End Summary.

Government Plans Tariff Increases

¶2. (C) Minister Industry, Energy, and Fuel Resources Saparbek Balkibekov told the Ambassador and USAID Country Representative Shapiro February 12 that the government was preparing a medium-term tariff policy that would more than double electricity rates by 2012 to approximately 1.6 soms (4.44 cents) per kilowatthour. The new policy, which he expected to be adopted this summer, would provide for annual increases to electricity, heating, and hot water rates, with the tariffs for individual consumers initially rising more gradually than for legal entities. Balkibekov said that introducing tariff increases in the summer months would be easier on customers, as usage is lower during the warmer weather.

¶3. (C) The Ambassador asked about plans for a "safety net" to protect more vulnerable consumers, and the USAID Country Representative added that some donors were prepared to assist. Balkibekov said that the government, and in particular the Ministry of Social Protection, was working on establishing an "effective system" by 2012. He said that currently there were separate laws providing protection to different categories of people (e.g., veterans, people living in mountainous areas), and these laws need to be revised to create a system that addresses the needs of the poorest consumers. Balkibekov said that pensions and other allowances would be increased in step with the tariff increases.

Privatizing Distribution First

¶4. (C) Balkibekov said that to improve the financial condition of the energy sector, the government was proceeding with plans to reorganize and privatize energy assets. He said that the State Committee on State Property had the lead, and distribution assets would be privatized first, because the distribution companies "have the most problems" which new owners can solve. With the exception of the Bishkek "TETS" generation and hot water facility, which is also slated for privatization, generation and transmission assets would be privatized at a later date. (Note: Separately, the Chair of the State Property Committee, Tursun Turdumambetov, told the Ambassador February 19 that the Committee is currently involved in the privatization of strategic state enterprises, including large electricity distribution companies in Talas, Osh, Chui Oblast, and Bishkek. End Note.)

¶5. (C) Asked about the participation of foreign investors, Balkibekov said that the initial stage of privatization would

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likely involve only foreign investors, as local investors did not have sufficient funds to buy large distribution assets such as "SeverElectro" (although Kyrgyz firms might bid on smaller distribution companies, such as "JalalabadElectro"). Balkibekov said that the main criterion in evaluating bids would not be the sale price, but rather how much the investor would commit to rehabilitating the assets. Dismissing as "rumors" reports that parliament would be excluded from the process, Balkibekov assured that parliament would be involved in discussing the tenders and investment proposals. (Note: On January 23, Prime Minister Chudinov told the Ambassador that the President had requested the privatization process be speeded up, and the best way to do this was to eliminate parliament's role. End Note.) Balkibekov added that the government would take advantage of proffered World Bank assistance in evaluating assets and preparing them for privatization.

Meeting Peak Demand

¶6. (C) Balkibekov said that Kyrgyzstan needed to add new power generation, as well as introduce energy conservation measures, in order to meet winter peak demand. Currently, wintertime consumption was 3.5 times greater than during the summer months, with high usage at night throughout the year. He said that consumers needed to be educated about "more rational" use of power, but upgrading meters throughout the country would be very expensive. He added that the German KfW was already implementing a project to upgrade meters for "SeverElectro" consumers. (Note: Balkibekov has since asked USAID for assistance on implementing a pilot project to combine metering with other automated and more intensive collection methods to illustrate how collections can be increased. End Note.)

Toktogul Has Sufficient Water

¶17. (C) Balkibekov said there was sufficient water in the Toktogul Reservoir to meet generation needs through next winter, even if there is low precipitation this year. However, he noted that there could be problems next year, as there has not been heavy snow in the high mountains this winter. He said that the current level in the reservoir is 8.4 billion cubic meters, with the "dead level" for power generation being 5.4 billion cubic meters.

¶18. (C) Asked about control of water release from Toktogul, Balkibekov commented that water management remains a critical issue. He said that in the winter, Kazakhstan requests lower water releases to prevent flooding in the Kyzyl-Orda region, but in the summer, Kazakhstan asks for increased releases. Balkibekov said that a regional commission previously met each year to determine how much water to release and when. The commission had not met for the past two years, but he planned to take part in a meeting of regional energy and water ministers in Astana February 15. Press reports indicate that the ministers will convene once again on February 29 in Bishkek.

No Electricity for Tajikistan

¶19. (C) Balkibekov clarified that, although Kyrgyzstan initiated increased energy exports to Tajikistan (to aid their energy crisis) on February 1, the GOKG decided to cease doing so one week later, after the Tajik Government failed to confirm that it would export an agreed amount of electricity to Kyrgyzstan in May (reftel).

Too Soon for Regional Energy Markets

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¶10. (C) Reviewing a summary of USAID's Regional Energy Markets Assistance Program (REMAP), Balkibekov said that the project's original design had been flawed because the region was not ready to establish a regional electricity market. He noted that REMAP, which is drawing to a close, had recently narrowed its focus to developing trade with Kazakhstan. He added that he was supportive of USAID's new energy program that was Kyrgyzstan-specific, and he welcomed having USAID involve the Ministry in designing future programs. (Note: During the week of February 18, USAID energy experts met with ministry officials regarding the future REMAP program. End Note.)

Comment

¶11. (C) The Kyrgyz have made progress over the last few years in the energy sector. Most notably, they have accepted a market orientation, as evidenced by their participation in regional electricity sales, as well as steps towards privatization and a more rational tariff policy. How they implement these next steps will be crucial, as it is not clear the Kyrgyz have accepted the principle of transparency with the same ardor.

YOVANOVITCH